

China-
leading the race to
digital media revenues
in Asia Pacific



In 2016 China will surge past the flat-lining Japanese market to become the largest entertainment and media market in the Asia Pacific region, and number two in the world behind the United States.

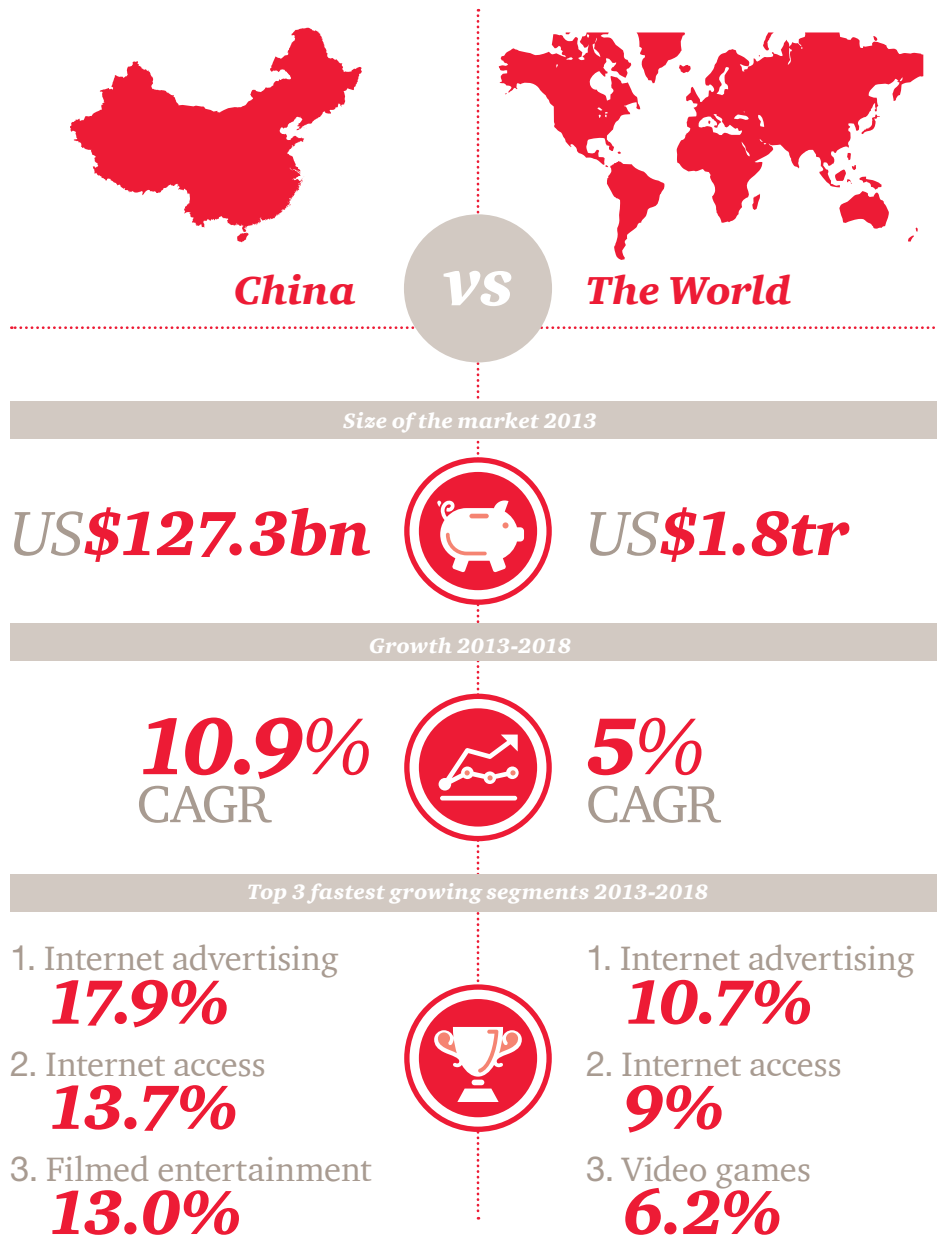
China will overtake Japan in 2016 as the world's second-largest entertainment and media market after the US

In 2011, China leaptfrogged Japan as the world's second-largest economy behind the United States. The PwC Global entertainment and media outlook 2014-2018 forecasts that in 2016 China will achieve the same feat in the entertainment and media industry, surging past Japan to become the largest market in Asia Pacific and number two globally. With total entertainment and media spending of US\$127.3bn in 2013, China is forecast to see its entertainment and media market expand at a compound annual growth rate (CAGR) of 10.9% through the five years to 2018, reaching US\$213.6bn. In contrast, entertainment and media spending in Japan will remain virtually flat, rising at a CAGR of just 0.4%. While China's growth will also outpace the US during the forecast period, it still has a long way to go to claim top spot, with the US market projected to be worth US\$679.4bn in 2018. That will be over three times the size of China's market, whose growth through 2018 will be spearheaded by Internet advertising, Internet access, and filmed entertainment as the three fastest-growing segments.



While China's entertainment and media market will grow at a CAGR of 10.9% through the five years to 2018 against the US's 4.8% CAGR, the US market will still be over three times the size of China's in 2018.

Chinese entertainment & media market by numbers



Source: PwC, Global entertainment and media outlook 2014-2018, www.pwc.com/outlook

China increasingly dominates the Asia Pacific entertainment and media market



China will be the Asia Pacific region's second fastest growing market during the five-year forecast period, outpaced only by the much smaller Indian market.

In 2013, China's total entertainment and media spending of US\$127.3bn gave it a 27.5% share of the total market across the Asia Pacific region.

- By 2018, with its market having expanded at a CAGR of 10.9%, outpacing the overall CAGR of 5.8% projected for Asia Pacific as a whole, China's market share in Asia Pacific will have risen to 35.0%.
- Over the same period, Japan's share of overall Asia Pacific spending will fall from 35.4% to 27.4%.
- As well as overtaking Japan as Asia Pacific's largest entertainment and media market from 2016, China will also be the region's second-fastest growing market during the five-year forecast period. Among other Asia Pacific countries, China's growth rate will be outstripped only by the much smaller Indian market, which will expand at a CAGR of 11.6%.
- China's CAGR of 10.9% through 2018 will also be more than double the 5.0% CAGR projected for the global entertainment and media market, and the 4.8% CAGR forecast for spending in the US.



Growth will be spearheaded by Internet advertising and Internet access



Internet advertising spend in China will be over three times the size of TV advertising spend in 2018. In contrast, TV advertising at a global level in 2018 will still be marginally higher than global Internet advertising.

Internet access is already the largest segment in the Chinese entertainment and media by a wide margin, with revenues of US\$41.0bn in 2013 – way ahead of second-placed newspaper publishing at US\$13.6bn, and third-placed Internet advertising at US\$13.4bn.

- During our five-year forecast period, Internet access spending in China will continue to rise strongly, expanding at a CAGR of 13.7% to reach US\$78.0bn in 2018. This will make it the second-fastest growing segment, outpaced only by Internet advertising.
- Spending on Internet advertising in China will rise at a CAGR of 17.9% to reach US\$30.6bn in 2018 – still well under half the amount spent on Internet access.
- The growth in Internet advertising will strongly outpace TV advertising, which will rise at a CAGR of just 7.0% to US\$8.7bn in 2018.
- Internet advertising in China overtook TV advertising in 2011, and in 2018 Internet advertising spending in China will be well over three times as big as TV advertising. In contrast, TV advertising at a global level will still be marginally higher than Internet advertising in 2018, putting China ahead of the global trend as advertising migrates online.
- The third-fastest growing segment of entertainment and media in China over the next five years will be filmed entertainment, expanding at a CAGR of 13.0% to reach US\$7.0bn in 2018.
- All segments of entertainment and media in China will see increases in spending during the five years, with books – including electronic books – being the slowest-growing at a 1.9% CAGR.

China will outpace global growth in every segment – to varying degrees



China will outpace global growth in every segment of entertainment and media over the five years to 2018.

As well as growing at an overall CAGR more than twice that of the entertainment and media market globally, China is projected to exceed the global growth rate in every single segment of entertainment and media over the five years to 2018, fuelled by its rising middle-class spending power.

- The segments seeing wide gaps between their growth rates in China and globally will include: Internet access (China CAGR 13.7%, global 9.0%); Internet advertising (China 17.9%, global 10.7%); TV subscriptions and licence fees (China 11.3%, global 3.2%); filmed entertainment (China 13.0%, global 4.5%); newspaper publishing (China 8.3%, global 0.1%); and music (China 8.6%, global 1.2%).
- Narrower differentials between Chinese and global growth rates will be seen in segments such as TV advertising (China CAGR 7.0%, global 5.5%) and video games (China 7.0%, global 6.2%).





Internet access will continue to dominate entertainment and media spending in China, accounting for 36.5% of total spending in 2018 compared to a global average of 29.6%.

Internet access will remain the dominant segment, accounting for over one-third of total Chinese entertainment and media spending in 2018

Already by far the largest segment of entertainment and media in China, with spending of US\$41.0bn in 2013, Internet access will remain the dominant segment throughout the forecast period. Spending on Internet access will rise at a CAGR of 13.7% to US\$78.0bn, accounting for 36.5% of total Chinese entertainment and media spending in 2018 – well above the global average of 29.6%.

- In the fixed broadband market, the major operators are gradually upgrading the country's networks. Also, as part of its Broadband China initiative, the State Council has issued a mandate that 50% of households should have fixed broadband connections by the end of 2015. We project that the number of fixed broadband households will increase from 190.6mn to 329.3mn over 2013-2018. Total fixed broadband access revenue will also increase, from US\$21.7bn to US\$34.5bn.

- In the mobile space, China's 4G mobile Internet market is finally coming to life after lengthy delays. The number of mobile Internet subscribers in China is forecast to increase from 532mn to 918mn in the period 2013-2018, with revenues also set to rise from US\$19.3bn to US\$43.5bn.
- With mobile Internet access spending rising at a CAGR of 17.7% during the forecast period, and fixed Internet access at a CAGR of only 9.7%, mobile Internet access revenues will overtake fixed access revenues in 2015. The proportion of overall Internet access revenues coming from mobile will rise from 47.0% in 2013 to 55.8% in 2018.



Mobile Internet access revenues in China will overtake fixed Internet access revenues in 2015.

Internet advertising: China blazes a trail, as advertising spend continues to migrate online and mobile advertising takes off



China is the largest Internet advertising market in Asia and the second-largest in the world after the US.

China is the largest Internet advertising market in Asia and the second-largest in the world after the US, with total Internet advertising revenue of US\$13.44bn in 2013, up from US\$2.76bn in 2009. There is still far more growth to come – total Internet advertising revenue is forecast to rise by a CAGR of 17.9% over the forecast period to reach US\$30.58bn in 2018.

- With 618mn Internet users in China at the beginning of 2014, the trend of the Internet taking advertisers' revenue from traditional media, such as newspapers, magazines and even TV, has become more and more obvious.
- Search takes the lion's share of the total Internet advertising revenue. Paid search Internet advertising revenue is forecast to grow at a CAGR of 16.4% to US\$11.34bn in 2018, when its share of total Internet advertising revenue will have fallen a little to 37%, eroded by the rise in mobile Internet advertising revenue.
- The popularity of cheap smart devices, ever-cheaper data plans and a wide coverage of free Wi-Fi will drive rapid increases in mobile Internet advertising revenue. Total mobile Internet advertising revenue is forecast to increase at a CAGR of 27.7% between 2013 and 2018 to reach US\$5.14bn, when it will account for 17% of total Internet advertising revenue.



Newspapers: the Chinese newspaper market will remain more resilient to digital disruption than its counterparts in the rest of the world



Overall newspaper revenues in China will rise at a CAGR of 8.3% over the next five years, overtaking Japan in 2017 as the Asia Pacific region's largest newspaper market.

With total revenues from both circulation and advertising of US\$13.6bn in 2013, China has a thriving newspaper industry that is second only to Japan in the Asia-Pacific region. Over the next five years, China's newspaper revenues will rise at a CAGR of 8.3%, overtaking Japan in 2017 as the region's largest newspaper market.

- The strong growth in overall spending on newspapers in China will be in stark contrast to the segment's performance globally, with a CAGR of just 0.1% projected for the global newspaper industry as a whole, under the impact of the migration to digital formats and advertising.
- With an average daily print unit circulation of more than 131mn in 2013, a free dailies newspaper circulation of 4.6mn and a fast-growing average daily unit circulation in digital formats, China had the largest market for newspapers by volume in 2013. With a CAGR of 8.5%, print newspaper circulation revenue in China will grow from US\$5.6bn to US\$8.5bn between 2013 and 2018.
- Digital newspaper advertising revenue will rise from US\$515mn in 2013 to US\$1.13bn in 2018, a CAGR of 17%. Chinese newspapers are highly involved in digitisation, making content available on the Internet and on mobile devices. But, as in most territories worldwide, they are still searching for a profitable business model for digital content.



Filmed entertainment revenues in China will far outstrip the segment's global growth – supported by local Chinese movie productions



Spending on filmed entertainment sector in China will surge at a CAGR of 13% between 2013 and 2018, far outpacing the CAGR of just 4.5% projected for the global filmed entertainment segment as a whole.

China's filmed entertainment sector will be worth US\$7.03bn by 2018, up from US\$3.81bn in 2013, a CAGR of 13%. This growth rate will far outpace that of the global filmed entertainment segment as a whole, which will expand at a CAGR of just 4.5% during the five-year forecast period.

- China is the second-largest cinema box-office market in the world and one of the fastest growing, fuelled by the country's increasingly affluent middle class and expanding numbers of cinemas. Box office revenue is forecast to rise from US\$3.13bn in 2013 to US\$5.90bn by 2018, a CAGR of 13.5%.
- Local movies are performing increasingly well at the Chinese box office, and accounted for US\$2.12bn in 2013, around two-thirds of total box-office spending.
- Electronic home video revenue is seeing spectacular growth and is expected to rise to US\$792mn by 2018, up from US\$340mn in 2013, a CAGR of 18.4%. However, even by 2018, this will still only represent 11% of the total filmed entertainment revenue.
- China is the largest cable TV market in the world with 216mn cable TV subscribers – and as the Chinese population embraces smartphones and mobile devices, the electronic home video market is expected to expand at a dramatic rate.



Box office revenues from local movies totalled US\$2.12bn in 2013, around two-thirds of total box-office spending in China.



Where will consumers and advertisers spend their money in the next five years?

This article is drawn from data in PwC's *Global entertainment and media outlook 2014-2018* (Outlook). The Outlook is an online source of five-year forecast and five-year historic consumer and advertising spend data for 13 entertainment and media segments, across 54 countries. PwC continually seek to update the online Outlook data, therefore, the data within this PDF may not be aligned with the data found online.

To find out more about the Outlook and to purchase a subscription to the full datasets, please visit: www.pwc.com/outlook

How PwC can help

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